

# Laws and Practice of General Banking (LPGB)

## For JAIBB

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# Syllabus

## Part- I

### **Module A: Financial Institutions Related Laws**

- Bangladesh Bank Order, 1972; Bank Company Act, 1991; Financial Institutions Act, 1993; Artho Rin Adalat, 2003

### **Module B: Financial Instrument Related Laws**

- Negotiable Instrument Act, 1881; Note Refund Regulations, 2012

### **Module C: Financial Activities Related Laws**

- Foreign Exchange Regulation Act, 1947; Money Laundering Prevention Act, 2012; Anti-terrorism Act, 2009

### **Module D: Business Related Laws**

- Company Act, 1994; Contract Act, 1872; Transfer of Property Act, 1882; Limitation Act, 1908; Bankruptcy Act, 1997; Customs Act, 1969; Stamp Act, 1899; Partnership Act, 1932; Registration Act, 1908

### **Module E: Information and Data Related Laws**

- Bankers Book Evidence Act, 1891; Information and Communication Technology Act, 2006; Digital Security Act, 2018; Right to Information Act, 2009

### **Module F: General Laws**

- Bangladesh Environment Conservation Act, 1995; Power of Attorney Act, 2012; Bank Deposit Insurance Act, 2000



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## **Part-II**

### **Module A: Overview**

- Bank, Types of Banks, Functions of Banks, Areas of General Banking, Customers, Relationship with the customers, Rights & Obligations of banks & customers, Providing services in accordance with customer acceptance policy & schedule of charges Module

### **Module B: Deposit Accounts & Operation**

- Customer and UCIC (Unique Customer Identification Code) KYC, e-KYC, CDD (customer due diligence), EDD, PEPs/IPs, Beneficial Owner, Types of Deposit Accounts, Procedures of opening of Accounts and relevant documents required for opening of accounts, introduction, Letter of thanks, Sanction screening, Opening of Account through digital Platform, Issuance of Cheque book.

### **Module C: Negotiable Instruments Act 1881**

- Negotiable Instrument, Promissory note, Bill of exchange, Cheque, Drawer & Drawee, Payee, Holder, Holder in due Course, Payment in due Course, inland instruments, foreign instruments, Negotiation, Endorsement, Effect of endorsement, Cheque payable to order, effect of material, revolution of bankers' authority, crossing of cheques & its effects, Collecting Banks' responsibility.

### **Module D: General Banking**

- Debit Cards, Internet banking, Transfer of accounts, standing instruction, Stop & lost payment instruction & its revocation, Dormant accounts and its revival, unclaimed deposit accounts, closing of accounts, Operation of minor students, no-frills, Incapacitated-sick-disabled accounts, Resident & Non-Residents Accounts, Accounting entries related to deposit/withdrawal/transfer of money. Fees and commission, charging interest in deposit/loan accounts, encashment of deposit accounts, Tax and Excise duty, Issuance and payment orders, Demand draft, Telegraphic Transfer, Cancellation and Duplicate Issuance, BACH operation management, BEFTN, NPSB and RTGS.

### **Module E: Cash Management**

- Demand and time liabilities (DTL), Calculation and maintenance of CRR, Maintenance of clearing accounts with Bangladesh Bank and other banks, Vault limit and transit limit management, Insurance Coverage, Management of cash in vault, Counter, ATM and feeding branches, Handling of Mutilated/Torn/ soiled/ issue/re-issue and fake notes, Purchase, sell of prize Bond, Maintenance of security stationary, stamps, safe in-safe out Registrar, Management of Locker and safe custody services, Inward and outward bills for collection (IBC and OBC), e-chalan, A-chalan, E-gp. Payment foreign inward remittance (COC and A/C payee)

### **Module F: Other General Banking**

- Reconciliation/ checking of daily activity report, DCFCL, Management and Preservation of records, Documents and Vouchers, checking of daily statement of affairs/income and expenditure related statement, balancing of all heads of general ledger (GL)

**Part I**  
**Module-A**  
**Financial Institutions-Related Laws**

**Q-1 Discuss in brief the main functions of a central bank.**

**Or, Discuss the functions of central bank. (June 13).**

**Or, State the main functions of Central Bank as per Bangladesh Bank Order, 1972.**

1. **Monetary Policy:** Bangladesh Bank formulates and implements monetary policy to control the money supply in the economy.
2. **Foreign Exchange Management:** The central bank manages the foreign exchange market and maintains foreign currency reserves to ensure stability in the balance of payment.
3. **Credit Control:** Bangladesh Bank regulates credit supply in the economy to stabilize inflation and control the growth of credit.
4. **Supervision of Banks:** The central bank supervises and regulates the activities of banks and financial institutions to maintain the safety and soundness of the banking system.
5. **Payment System Management:** Bangladesh Bank manages the payment system and ensures smooth functioning of the interbank transfer of funds.
6. **Money Laundering Prevention:** The central bank monitors financial transactions to prevent money laundering and terrorist financing.
7. **Economic Research and Analysis:** Bangladesh Bank conducts research and analysis on economic and financial issues that impact the country's economy.

**Q-2 Explain the procedure of Composition of the Board of Directors. Discuss the Mandate of the Board of Director.**

**As per Bangladesh Bank Order, 1972 Board shall consist of -**

- a) The Governor;
- b) A Deputy Governor to be nominated by the Bank;
- c) Four Directors: who will not be Government officials to be nominated by the Government from amongst persons who, in the opinion of the Government, have had experience and shown capacity in the field of banking, trade, commerce, industry or agriculture;
- d) Three Government officials to be nominated by the Government.

**Mandate of the Board of Directors:**

**As per Bangladesh Bank Order, 1972**

- a) The mandate of the board is to formulate and implement monetary policy, regulate banking and financial institutions, manage the foreign exchange reserve, promote economic growth and development, and protect the interests of depositors and investors.
- b) The board has the power to issue directives and guidelines, grant licenses and approvals, conduct inspections and audits, impose penalties and sanctions, and take other measures to ensure the soundness and stability of the financial system.

**Q-03. In which situations the office of a director falls vacant according to Banking Companies Act, 1991? BPE-96<sup>th</sup>.**

Under the Banking Companies Act, 1991 of Bangladesh, the office of a director in a bank may fall vacant in several situations:

1. **Resignation:** If a director resigns from their position.

2. **Disqualification:** If a director becomes disqualified to hold the office. Disqualifications can include insolvency, unsound mind, conviction of a criminal offense, or failing to acquire the required number of shares within the specified period.
3. **Absence:** If a director is absent from board meetings for a prolonged period without satisfactory explanation.
4. **Removal:** If a director is removed by the shareholders through a resolution.
5. **Death:** In the event of the director's death.
6. **Bankruptcy or Insolvency:** If the director becomes bankrupt or insolvent.
7. **Legal Incapacity:** If any legal incapacity is incurred by the director.
8. **Cessation of Shareholding:** If the director ceases to hold the minimum number of shares required for qualification.
9. **Other Statutory Reasons:** As per other conditions stated in the Banking Companies Act or in the bank's articles of association.

These provisions ensure that the governance of banks remains in responsible and capable hands, maintaining the integrity and stability of the banking system in Bangladesh.

**Q-04 Explain the functions of the central bank as a banker to the government and banker's Bank. (Dec-18, July-18, Nov-17)**

**Or, Central bank is the banker of other banks explain. Or, Why the central bank is called the banker's Bank? (Nov-16).**

**Banker to the other Bank:**

- Bangladesh Bank provides financial services to other banks
- Controls and supervises the banking system in the country
- Maintains adequate liquidity in the banking system
- Bangladesh Bank provides financial services to the government
- Manages government accounts and payments
- Maintains the foreign exchange reserve of the country

**Banker to the government:**

- Bangladesh Bank provides financial services to the government
- Manages government accounts and payments
- Maintains the foreign exchange reserve of the country

**Q-05 What principle is followed by the Bangladesh Bank in respect of issuing notes? (Dec-18).**

**Principles of Bangladesh Bank to Issue Notes:**

1. **Security:** Bangladesh Bank follows strict security measures to ensure the safety of currency notes from counterfeiting and forgery.
2. **Quality:** The bank maintains high-quality standards for the production and issuance of currency notes to ensure that they are easily recognizable and durable.
3. **Availability:** Bangladesh Bank ensures that adequate amounts of currency notes are available to meet the demand of the market.
4. **Design:** The design of currency notes is carefully selected to reflect the country's heritage, culture, and identity.
5. **Compliance:** Bangladesh Bank ensures that the issuance of currency notes follows all regulatory and legal requirements to maintain public trust in the currency.

- Q-06 What are the main instruments of Monetary Policy of a central bank? (Nov-17, June-13, may-12)**  
**Or, What are the different instruments used by the Bangladesh Bank to pursue its monetary policy? (Nov-17, June-13, may-12).**  
**Or, What are the different instruments used by the central Bank to pursue its monetary policy? (June-17, June- 22).**

**Main Instrument of Monetary Policy of Central Bank: Open Market Operations (OMO):** The central bank buys or sells government securities in the open market to adjust the money supply in the economy.

- 1. Reserve Requirements:** The central bank sets a minimum level of reserves that banks must hold to meet deposit withdrawals and payment obligations.
- 2. Discount Rate:** The central bank sets the interest rate at which it lends money to commercial banks, which affects the cost of borrowing for banks and their customers.
- 3. Credit Ceiling:** The central bank sets a limit on the total amount of credit that can be extended by banks to control the expansion of credit in the economy.
- 4. Moral Suasion:** The central bank uses persuasion and influence to encourage or discourage banks from certain actions, such as changing interest rates or lending practices.

**Q-07 Central Bank is the Lender of Last Resort- explain. (Nov-17, Dec-15, Dec-14) Central Bank is the Lender of Last Resort:**

1. One important role held by the central bank is that of being the lender of last resort.
2. This means that in times of financial crisis, the central bank has the authority to provide emergency loans to banks and other financial institutions.
3. The lender of last resort function helps to maintain stability in the financial system and prevent systemic collapses.

**Q-08. Bangladesh Bank has published a guideline recently for establishing digital bank in the country. Answer the following questions, based on your understanding on the published guideline: BPE-97<sup>th</sup>.**

- i. **What is digital banking? What is the key difference between a digital bank and a conventional bank?**

**Digital Banking:** A digital bank is a type of financial institution that operates primarily online or through digital channels, such as mobile apps, without relying on traditional physical branch networks. It offers the full range of banking services using digital platforms, focusing on convenience, efficiency, and accessibility. Digital banks use advanced technologies to provide innovative banking solutions and are known for their customer-centric approaches and streamlined operations.

**Digital Banking and Differences from Conventional Banking:**

Aspect	Digital Bank	Conventional Bank
1.Branch Presence	Operates virtually without physical branches.	Has physical branch networks.
2.Service Access	Services are accessed online via digital platforms.	Offers both online and in-person services.
3.Infrastructure	Relies on advanced technology infrastructure.	Uses a combination of technology and manual processes.
4.Customer Interaction	Interaction is primarily digital.	Provides face-to-face service options.
5.Cost Structure	Lower operational costs due to lack of physical branches.	Higher operational costs due to physical infrastructure.

ii. **What are the main features of digital bank?**

**Main Features of Digital Bank** The main features of a digital bank include:

- Fully digital and branchless operations.
- Use of advanced technologies like AI, blockchain, and machine learning.
- Provision of a wide range of financial services through digital channels.
- High emphasis on cybersecurity and data protection.
- Innovative and customer-centric products and services.

iii. **Do you think that the digital bank will emerge as a disruptive force in our banking industry? Give your opinion.**

Digital banks have the potential to be a disruptive force in Bangladesh's banking industry. They bring innovation, enhanced accessibility, and efficiency, which can lead to increased competition and better services for customers. By leveraging technology, digital banks can reach underserved markets, offer personalized products, and improve the overall banking experience. This can challenge traditional banks to innovate and adapt, leading to a more dynamic and customer-focused banking sector. However, the extent of disruption will depend on factors like regulatory support, customer acceptance, and the ability of digital banks to maintain trust and security.

**Q-09 What is the role played by Bangladesh Bank in the economic development of the country? (July-18). Or, Central bank not only function as regulatory authorities but also as development institution. Explain how far this statement is true in the case of Bangladesh Bank? Discuss. Nov-16**

**Role of Central Bank as Development Institution:**

1. **Promotion of Economic Growth and Financial Stability:** In addition to its traditional central banking functions, the Bangladesh Bank also acts as a development institution, promoting economic growth and financial stability through various programs and initiatives.
2. **Provision of Low-Cost Credit:** The central bank plays a key role in providing low-cost credit to priority sectors such as agriculture, small and medium-sized enterprises, and export-oriented industries.
3. **Regulation and Supervision of Financial Institutions:** Through its supervision and regulation of financial institutions, the Bangladesh Bank helps to ensure the safety and soundness of the financial system, promoting investor confidence and contributing to overall economic development.
4. **Promotion of Inclusive and Sustainable Development:** With its focus on promoting inclusive and sustainable development, the Bangladesh Bank is a vital institution in driving the economic progress of Bangladesh.

**Q-10 What Measures Bangladesh Bank can take in checking inflation trend in Bangladesh? Dec-14.**

**Bangladesh Bank Measure to Control Inflation:** Bangladesh Bank (BB) has been entrusted with the mandate to maintain price stability, and to control inflation in the economy.

1. **Use of Monetary Policy Tools:** To achieve this goal, BB uses various monetary policy tools such as open market operations, reserve requirements, and interest rates.
2. **Inflation Control:** BB's main objective is to keep the inflation rate within a tolerable range, which is usually set by the government.
3. **Success in Reducing Inflation:** In recent years, BB has been successful in reducing inflation to single digits, despite facing various external and domestic challenges.



4. **Proactive Macroeconomic Management:** However, BB continues to be vigilant and proactive in its efforts to maintain a stable macroeconomic environment, which is essential for sustainable economic growth and development.

**Q-11. Briefly discuss the functions of commercial banks regarding the following activities: BPE 97<sup>th</sup>.**

- (i) **General Banking.**
- (ii) **Credit/Advance.**
- (iii) **International Trade.**

Commercial banks perform various crucial functions in the financial system, which can be categorized into three main activities:

- (i) **General Banking:** This involves handling day-to-day banking activities like accepting deposits, managing withdrawal transactions, offering savings and current accounts, facilitating payments and transfers, issuing bank drafts and checks, and maintaining customer accounts.
- (ii) **Credit/Advance:** Banks provide loans and advances to individuals, businesses, and other entities. This includes personal loans, mortgage loans, business loans, credit lines, overdraft facilities, and other forms of credit. They assess creditworthiness, manage risk, and ensure the repayment of these loans.
- (iii) **International Trade:** They play a vital role in international trade through services like issuing letters of credit, facilitating foreign exchange transactions, providing trade finance, and offering advice on international trade regulations and practices. This helps in smoothing the process of cross-border trade and payments.

**Q-12. Discuss the various instruments available to the central bank to control money supply and credit? June-14, Dec-13.**

**Or, What is Meant by Credit Control? Discuss the methods of credit control.**

**Or, Explain the main instruments of Credit Control of central bank. What is Meant by Credit Control?**

**Credit Control:** Credit control refers to the measures taken by Bangladesh Bank to regulate and supervise the amount of credit extended by banks and financial institutions. This is done through various tools such as setting interest rates, reserve requirements, loan-to-deposit ratios, and credit ceilings. The aim is to ensure financial stability and prevent inflation by managing the flow of credit in the economy.

**Credit Control Methods of Bangladesh Bank:**

1. **Reserve requirements:** Banks were required to maintain a certain percentage of their deposits as reserves with the central bank.
2. **Monetary policy:** The central bank used monetary policy tools such as interest rate adjustments and open market operations to influence the supply of credit.
3. **Credit ceilings:** The central bank set limits on the amount of credit that could be extended by banks to prevent excessive lending and inflation.
4. **Moral suasion:** The central bank used its influence to persuade banks to follow its guidelines and policies.
5. **Direct controls:** The central bank used direct controls such as credit rationing and selective credit controls to regulate the flow of credit.

**Q-13. What is the goal or purpose of Monetary Policy?**

1. To control inflation and ensure price stability.
2. To promote sustainable economic growth.
3. To maintain a stable exchange rate.
4. To regulate the supply of money and credit in the economy.
5. To ensure financial stability for the country.

**Q-14. What is the Selective Credit Control? Discuss the objectives of Credit Control. Dec 21.**

**Selective Credit Control by Bangladesh Bank:**

1. It aims to regulate the flow of credit towards certain sectors or activities to achieve specific economic objectives.
2. Certain measures such as changing interest rates, imposing credit ceilings, and reserve requirements are used to implement selective credit control.
3. The objectives of selective credit control in Bangladesh include promoting agriculture, small scale industries, and export-oriented industries.
4. Although it has been successful in achieving some of these objectives, there have also been unintended consequences such as increased informal lending and evasion of regulatory measures by some borrowers.

**Q-15. State the general limitations of credit limit as mentioned in Banking Companies Act, 1991. BPE-96<sup>th</sup>.**

The general limitations of credit limit as mentioned in the Banking Companies Act, 1991 of Bangladesh are:

**1. Prohibition on Loans Against Own Shares**

A banking company shall not provide loans or advances against its own shares.

**2. Restrictions on Unsecured Loans**

- Loans or advances without security are restricted to certain persons, including directors of the bank or related entities.

**3. Conflict of Interest in Lending**

- There are specific restrictions on loans and advances to companies where directors of the banking company have interests.

**4. Limits on Exposure to Single Entities**

- The total value of loans, advances, or other benefits to any single person or company should not exceed certain specified limits of the bank's capital.

**5. Requirement for Regulatory Approval**

- The Act requires written permission from the Bangladesh Bank for loans or benefits exceeding these specified limits.

These limitations are set to maintain the financial stability and integrity of the banking system, ensuring prudent lending practices and mitigating risk.

**Q-16. What is the Security Measure for Safety of Branch as prescribed by the Bangladesh Bank? Dec-22.**

1. **Physical Security Measures:** Installation of CCTV cameras, security alarm systems, metal detectors, and security personnel at the entrance of the branch for monitoring and detecting suspicious activities.
2. **Access Control:** Restricted access through biometric identification systems, smart cards, and password-protected computers, ensuring authorized personnel can only access sensitive areas or data.
3. **Cash Security:** Safe and secure storage of cash in lockers, vaults, or safes, installing dye packs and/or trackers in cash bundles or bags, and training employees in cash-handling procedures.

4. **Cybersecurity:** Installing firewalls, antivirus software, and robust data encryption systems to prevent cyber-attacks and data breaches and conducting regular security audits.
5. **Risk Management:** Developing comprehensive risk management policies to identify and mitigate potential security threats and conducting regular employee training programs to raise awareness of security concerns.

**Q-17. According to the Banking Companies Act 1991, what kind of activities can the bank conduct in Bangladesh?**

1. **Borrowing and Collecting Money:** Banks engage in the borrowing, collecting, or taking up of money, which forms a fundamental aspect of their financial intermediary role. This includes accepting deposits from the public and borrowing from other financial institutions.
2. **Lending and Advancing Money:** Banks provide loans and advances to individuals, businesses, and other entities. This can be done with or without security. Secured loans are backed by collateral, whereas unsecured loans rely solely on the borrower's creditworthiness.
3. **Handling Negotiable Instruments:** A significant function of banks involves dealing with negotiable instruments such as bills of exchange, promissory notes, and debentures. This includes drawing, accepting, making, buying, selling, and collecting these instruments, which are integral to the banking business.
4. **Issuance of Credit Instruments:** Banks are authorized to issue various forms of credit instruments, including letters of credit, traveler's cheques, credit cards, and circular notes. These instruments facilitate commerce and personal finance by guaranteeing payment or providing credit.
5. **Restriction on Non-banking Activities:** Banks are restricted from engaging in business forms not specified in their regulatory framework. This ensures that banks remain focused on their core financial activities and do not venture into areas that could expose them to undue risk.

**Q-18. What are the regulations regarding minimum capital of banks as per Financial Institution Act 1993?**

**Bank Capital will be divided into two tiers:**

**Tier 1 Capital:** Tier 1 capital consists of shareholders' equity and retained earnings disclosed on their financial statements and is a primary indicator to measure a bank's financial health. These funds come into play when a bank must absorb losses without ceasing business operations. Tier 1 capital is the primary funding source of the bank. Typically, it holds nearly all of the bank's accumulated funds. These funds are generated specifically to support banks when losses are absorbed so that regular business functions do not have to be shut down.

- Common Equity Tier 1
- Additional Tier 1

**Tier 2 Capital:** Tier 2 capital includes undisclosed funds that do not appear on a bank's financial statements, revaluation reserves, hybrid capital instruments, subordinated term debt also known as junior debt securities and general loan-loss, or uncollected, reserves. Revalued reserves is an accounting method that recalculates the current value of a holding that is higher than what it was originally recorded as such as with real estate. Hybrid capital instruments are securities such as convertible bonds that have both equity and debt qualities.

Tier 2 capital is supplementary capital because it is less reliable than tier 1 capital. It is more difficult to accurately measure due to its composition of assets that are difficult to liquidate. Often banks will split these funds into upper and lower-level pools depending on the characteristics of the individual asset.

- Common Equity Tier 1 of at least 4.5% of the total RWA.
- Tier 1 capital will be at least 6.0% of the total RWA.

- Minimum CRAR must be 10% of the total RWA.
- Additional Tier 1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET1, whichever is higher.
- Tier 2 capitals can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET1, whichever is higher.
- Minimum total Capital and Capital Conservation Buffer must be at least 12.50% of RWA.

### **Formula of Risk Weighted Asset (RWA)**

**As per Banking Company Act 1991:**  $RWA = \text{Exposure Amount} \times \text{Risk Weight}$

**Exposure Amount:** This is the total amount of exposure a bank has to a particular borrower or counterparty. This includes direct and indirect exposure as well as off-balance sheet items.

**Risk Weight:** This is a percentage assigned to each exposure based on the credit risk of the borrower or counterparty. This percentage is determined by Basel III guidelines and varies depending on the type of exposure.

### **Capital to Risk Weighted Asset Ratio (CRAR)**

**As per Banking Company Act 1991:** The Capital to Risk-weighted Asset Ratio (CRAR) is calculated by taking eligible regulatory capital as numerator and total RWA as denominator.

$CRAR = \frac{\text{Total Eligible Capital}}{(\text{Credit RWA} + \text{Market RWA} + \text{Operational RWA})}$

It measures a bank's capital against its risk-weighted assets, providing a benchmark for a bank's ability to absorb losses. A higher ratio indicates a stronger financial position and better ability to weather economic downturns. Basel III requires a minimum ratio of 10%, but some banks aim for even higher levels to ensure stability and build trust with investors.

### **Q-19. What are the regulations related to cash reserves under the Banking Company Act?**

#### **Cash Reserve Requirement (CRR)**

It is mandatory for all banking companies to maintain certain percentage of cash reserve with Bangladesh Bank. The percentage of cash reserve changes from time to time through Bangladesh Bank's notification. CRR is maintained in cash form with Bangladesh Bank. In banking system, CRR is a proportion of cash determined by the central bank from time to time against a bank's total demand and time liabilities (TDTL). CRR ensures flow of money to the economy. Cash Reserve Requirement Ratio was set as 4.0 % in April 2021.

#### **Statutory liquidity ratio (SLR)**

**As per Banking Company Act 1991:** As per the Bank Company Act, 1991 and the amendment made in 2013, it has been decided that-

- Conventional banks will have to maintain at least 13% of total demand and time liabilities as Statutory liquidity ratio (SLR) over and above the CRR in cash and as deposit within Bangladesh in easily exchangeable asset on daily basis it will not be less than 13% of total demand and time liabilities and
- In case of Islami Shariah based Banking it will be at least 5.5%.

### **Q-20. Bring out clearly the Main Difference between Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). Dec-19, June- 22.**

**Main Difference between CRR and SLR:**

Aspect	Cash Reserve Ratio (CRR)	Statutory Liquidity Ratio (SLR)
<b>1. Definition</b>	Portion of deposits banks must keep as cash reserves	Portion of deposits banks must invest in specified liquid assets
<b>2. Purpose</b>	Regulate the liquidity in the banking system and control excessive lending by banks.	Ensure liquidity and solvency of banks
<b>3. Regulatory Authority</b>	Bangladesh Bank	Bangladesh Bank
<b>4. Requirement Calculation</b>	Percentage of total demand and time deposits	Percentage of total net demand and time liabilities
<b>5. Scope</b>	Applies to total deposits (demand and time)	Applies to total liabilities of banks
<b>6. Flexibility</b>	Non-interest-bearing reserve, cannot be used for lending/investment	Allows investment in specified liquid assets, earns some returns
<b>7. Impact on Liquidity</b>	Directly affects liquidity position, reduces lending capacity	Indirectly affects liquidity by limiting use of funds for other purposes

### Q-21. Explain the Restrictions on Buying of Shares.

#### Restrictions on Buying of Shares as per Banking Company Act 1991

1. **Share Ownership Limitation:** The shares of a bank shall not be concentrated among the members of one and the same family, and they shall not buy more than ten percent of the shares of a bank.
2. **Affidavit Requirement for Share Purchases:** Whoever buys shares of a bank shall at the time of the purchase submit an affidavit stating that they are not buying the shares as the agent of another person or under another's name and that they haven't previously bought any shares under another's name.
3. **Mandatory Submission of Oath:** Submission of an oath or declaration in this regard will be required.
4. **Consequences of False Declarations:** If the declaration is false, then all the shares of the person shall be forfeited to the Bangladesh Bank.
5. **Definition of Notable Share Ownership:** Notable share means ownership of more than 5% of the shares of a company.

### Q-22. What are the Restrictions on Loans & Advances under the Banking Company Act?

#### Or, What are the restrictions on loans and advances stated in Banking Companies Act, 1991? BPE-96<sup>th</sup>.

The Banking Companies Act, 1991 of Bangladesh stipulates the following restrictions on loans and advances by banking companies:

1. **Prohibition on Own Shares as Security:** Banks cannot make loans or advances against the security of their own shares.
2. **Restrictions on Unsecured Loans:** Banks are not allowed to make unsecured loans or advances to:
  - Directors of the bank.
  - Family members of the directors.
  - Any commercial institution or private company in which the bank or its directors or their family members are involved as directors, owners, or shareholders.
  - Any public limited company controlled by the bank, its directors, or their family members, or where these individuals hold at least 20% of the voting rights.

3. **Approval for Loans to Certain Persons:** Banks must obtain the approval of the majority of its directors (excluding any director concerned) to give loans or advances to:
  - Any of its directors.
  - Any person, commercial institution, or company where any of the bank's directors is interested as a partner, director, or guarantor.
4. **Limit on Aggregate Value of Benefits:** Banks cannot provide any benefit (including loans, advances, or financial guarantees) to any person or institution that exceeds:
  - 15% of the total capital of the bank.
  - 25% of the total capital of the bank if the benefit is secured by readily marketable financial securities.

"Total capital" is defined as paid-up capital and reserve fund, including various kinds of securities that comply with the provisions of the Bangladesh Bank

### Q-23. What are the Restrictions of a bank in payment of dividend?

#### As per Banking Company Act 1991

- Capitalized expenses must be written off before dividend declaration
- Shortfall in required capital and reserve means no cash dividend
- Provision shortfall is a barrier to dividend declaration

These regulations ensure that bank companies prioritize financial stability and responsible practices before distributing profits.

### Q-24. What do you mean by Financial Institution? Describe the Importance of Financial Institution in Context of Bangladesh.

#### As per Financial Institution Act 1993

- Loans and advances for industries, commerce, agriculture, or building construction
- Underwriting, investing, and reinvesting in stocks, bonds, and securities
- Instalment transactions, including lease of machinery and equipment
- Financing for venture capital
- Includes merchant banks, investment companies, mutual associations, mutual companies, leasing companies, and building societies

#### Importance of Financial Institution in Context of Bangladesh:

- **Economic Development:** Access to financial services is crucial for the development of the economy.
- **Poverty Alleviation:** Financial institutions can provide microfinance to help alleviate poverty.
- **Financial Inclusion:** Financial institutions can help create a more inclusive financial system for all.
- **Employment Opportunities:** The financial sector can create job opportunities and contribute to the overall growth of the economy.

### Q-25. Explain the rules regulations relating to Licensing of Financial Institutions Under the financial institution Act 1993?

#### Licensing of Financial Institutions:

Before granting a license, Bangladesh Bank may require to be satisfied following matter:

- a) The financial situation;
- b) The characteristics of the management;
- c) The sufficiency of the capital structure and the earning capacity;

- d) The purposes mentioned in the memorandum;
- e) The public interest;

**Q-26. Discuss the Power and functions of the Bangladesh Bank As per Financial Institution Act 1993.  
As per Financial Institution Act 1993**

- The highest rates of interest for deposits and credit
- Limits on the amount of credit individuals can take
- Deadlines for repayment of credit
- Calculation methods for interest rates on credit
- Upper limits for credits granted to individuals
- Reserve requirements for financial institutions at Bangladesh Bank
- Other regulations for public interest and monetary policy development

**Q-27. Describe the new features of the Artha Rin Adalat Law 2003 and 2010.  
Or, Discuss the main provisions of laws relating to the Artho Rin Adalat Act, 2003. BPE-96<sup>th</sup>.**

**New features of the Artha Rin Adalat Law 2003:**

- Simplification of the procedure for filing of suit and awarding judgment within a minimum stipulated time schedule.
- Emphasis on documentary evidence and less importance on verbal argument before the court.
- Alternative Dispute Resolution through settlement conference or mediation between the lenders and borrowers.
- Changes in the Limitation Act-1908.
- Changes in the doctrines of finality.

**New features of the Artha Rin Adalat Law 2010**

- Banks/FI's can sell mortgage property even without Power of Attorney
- Suit can be settled through arbitration at any stage of the suit
- Execution suit must be filed within one year of the decree
- The court shall publish notice in a newspaper chosen by the decree-holder
- Amount to deposit in case of objection in execution suit reduced to 10%
- Bidders in auction sale required to deposit 20% if quoted value is <10 lac, 15% for 10-50 lac, 10% for >50 lac
- Time limit for payment of rest amount is 30-90 days
- Appeal time in High Court Division extended to 60 days
- Interest on decretal amount increased from 8% to 12%, 16% for appeal/revision, 18% for appeal/revision against Higher Court order
- In case of discharged writ petition, interest will be charged at 25%.

**Q-28. Duties and Responsibilities of the Banker for Recovery of Loans before Filing Suit under Artha Rin Adalat Law 2003.**

1. No case can be filed until the securities are sold or attempted to be sold.
2. Auction sale will be initiated if the property cannot be sold through the above process.
3. A notice regarding the auction shall be published in national Bangla daily and another local paper.

4. Bidders must submit an amount equal to 20% for up to 10 lac, 15% for up to 50 lac, and 10% for exceeding 50 lac of the quoted price in the form of bank draft or pay order.
5. The total payment for the bidders should be made within 30, 60, and 90 days, respectively, as specified.

**Q-29. Do you think the existing laws relating to Artho Rin Adalat and Bankruptcy law are adequate to deal with the dealignment borrowers? Please discuss. BPE-96<sup>th</sup>.**

The Artho Rin Adalat and Bankruptcy laws in Bangladesh have certain strengths and limitations in dealing with delinquent borrowers:

1. **Artho Rin Adalat Act:** It provides a specialized legal framework for the recovery of loans by financial institutions. Its focused approach aids in expedited loan recovery and reduces the backlog of cases. However, it may sometimes be seen as overly stringent, potentially discouraging borrowers from seeking legal redress.
2. **Bankruptcy Law:** It helps in the orderly resolution of insolvency situations. While it provides a legal mechanism for handling bankrupt entities, its application can be cumbersome, and the process may be lengthy.

Both laws aim to balance the interests of creditors and borrowers. However, there are challenges in ensuring quick resolution and fairness, especially for small borrowers. The adequacy of these laws largely depends on their implementation effectiveness and the balancing of both recovery and borrower protection.

**Q-30. Discuss Appeal and Revision process.**

- **Filing an appeal** requires payment of 50% of the decretal amount before the district judge (if < Tk 50 lacs) or high court (if > Tk 50 lacs).
- **Appeal** settlement takes up to 90 days from filing, with a possible 30-day extension.
- **Filing a revision** suit demands payment of 75% of the decretal amount.
- **Revision** case resolution takes up to 60 days, with a possible 30-day extension.

**Q-31. Bank Company Act 1991 has been amended recently by adding some provisions related to loan defaulters. Answer the following questions in light of the amended Act: BPE-97<sup>th</sup>.**

- a. Define willful defaulter.

A willful defaulter is an individual or a company that intentionally avoids repaying loans despite having the financial means to do so. This could involve:

- Misusing loan funds for purposes other than what was agreed upon.
- Transferring borrowed money to other businesses or individuals without the bank's consent.
- Disposing of or hiding assets provided as security for the loan.

Falsifying records or financial statements to mislead the bank about their ability to repay.

- b. Will a sister concern of a defaulted group be eligible for granting fresh loan?

For sister concerns of a defaulted group in Bangladesh, the eligibility for obtaining fresh loans is generally restricted. The regulations often consider:

- The financial interdependence between the defaulted entity and its sister concerns.
- The overall financial health and repayment history of the sister concern.
- Whether the sister concern was involved in any activities contributing to the default.

- c. What are the major consequences for the habitual loan defaulter?



Habitual defaulters in Bangladesh face serious repercussions, which may include:

- d. Legal actions initiated by the banks or financial institutions.
- e. Seizure or auction of assets pledged as collateral.
- f. Higher interest rates and stricter terms for any future loans.
- g. A significant negative impact on their credit history, making it difficult to obtain financing in the future.
- h. Reporting to the Credit Information Bureau (CIB) of Bangladesh Bank, affecting their overall financial credibility.
- i. What measures would you take for the willful defaulter?

Measures against willful defaulters can be quite stringent, and might include:

- Legal proceedings, including civil and criminal charges.
- Blacklisting by banks and other financial institutions.
- Seizing control of assets or initiating bankruptcy proceedings.
- Public disclosure of their status as a willful defaulter, which harms their business reputation.
- Restrictions on leaving the country if legal proceedings are ongoing.

**Q-32. What regulatory measures should be taken by central bank to improve governance in the banking sector? Give your view. BPE-98<sup>th</sup>.**

Central banks can implement various regulatory measures to enhance governance in the banking sector:

1. **Enhanced Supervision:** Strengthen oversight mechanisms to ensure banks comply with governance standards.
2. **Transparent Reporting:** Require banks to disclose relevant information on governance practices and performance to stakeholders.
3. **Governance Guidelines:** Develop and enforce clear governance guidelines and codes of conduct for bank management and board members.
4. **Risk Management Requirements:** Implement robust risk management frameworks to identify, assess, and mitigate risks effectively.
5. **Whistleblower Protection:** Establish mechanisms to protect whistleblowers who report governance violations within banks.
6. **Training and Education:** Provide training and education programs to bank personnel and board members on governance best practices.
7. **Regular Audits:** Conduct regular audits and examinations to assess compliance with governance standards and identify areas for improvement.

These measures can promote accountability, transparency, and integrity in the banking sector, ultimately safeguarding financial stability and protecting stakeholders' interests.

**Q-32. What regulatory measures should be taken to reduce default loans in the banking sector? Give your view. BPE-98<sup>th</sup>.**

To reduce default loans in the Bangladesh banking industry, regulatory measures should include:

1. **Enhanced Supervision:** Strengthen regulatory oversight to ensure banks adhere to prudent lending practices and risk management standards.

2. **Credit Risk Management:** Implement stricter guidelines for assessing borrower creditworthiness, monitoring loan portfolios, and managing credit risk.
3. **Loan Classification and Provisioning:** Enforce timely and accurate loan classification and provisioning requirements to reflect the true risk profile of banks' loan portfolios.
4. **Governance and Transparency:** Enhance governance standards, board oversight, and disclosure requirements to promote accountability and transparency in lending operations.
5. **Legal Framework:** Improve legal and regulatory frameworks for loan recovery, including expedited legal processes and enforcement mechanisms.
6. **Capacity Building:** Provide training and capacity-building initiatives for bank personnel on credit risk assessment and loan recovery techniques.
7. **Credit Information Bureau:** Strengthen the credit information bureau to facilitate better credit risk assessment and information sharing among banks.

These measures can help mitigate default loan risks and improve the overall health and stability of the banking sector in Bangladesh.

**Q-33. Section 77 Ka of the Bank Company (Amendment) Act, 2023 has entrusted Bangladesh Bank with legal power to take early action i.e. PCA (Prompt Corrective Action) for the proper management of weak bank company and some resolution measures like merger, reconstructions, etc. Do you consider this amendment and measures to be taken by Bangladesh Bank would contribute to bringing more discipline and good governance in the banking sector?**

Yes, the amendment to Section 77 Ka of the Bank Company (Amendment) Act, 2023, granting Bangladesh Bank the legal authority to take early action such as Prompt Corrective Action (PCA) and resolution measures like mergers and reconstructions for weak bank companies, is likely to contribute positively to bringing more discipline and good governance in the banking sector.

Here's how:

1. **Early Intervention:** PCA allows Bangladesh Bank to intervene promptly when a bank's financial health deteriorates, preventing further deterioration and systemic risks.
2. **Discipline:** By enforcing stricter regulatory measures and resolution mechanisms, the amendment promotes discipline among banks, encouraging them to maintain sound financial practices and risk management.
3. **Transparency and Accountability:** The amendment enhances transparency and accountability by requiring timely reporting and disclosure of bank's financial condition and regulatory actions taken.
4. **Stability:** Implementing resolution measures like mergers or reconstructions can help stabilize weak banks and mitigate risks to the overall financial system.

Overall, these measures empower Bangladesh Bank to effectively address weaknesses in the banking sector, fostering greater stability, discipline, and good governance.

**Q-34. Describe the status of Bangladesh Bank Order, 1972 as law.**

The Bangladesh Bank Order, 1972, serves as the primary legislation governing the establishment, functions, and operations of the central bank of Bangladesh, the Bangladesh Bank. It was promulgated by the government shortly after Bangladesh's independence in 1971 to regulate monetary and financial matters in the country.

As a law, the Bangladesh Bank Order, 1972, holds significant legal authority and serves as the foundational framework for the central bank's operations. It outlines the objectives, powers, and functions of the Bangladesh Bank, including its role in formulating and implementing monetary policy, regulating the banking sector, managing the country's foreign exchange reserves, and promoting financial stability.

The Bangladesh Bank Order, 1972, has been amended several times over the years to adapt to evolving economic conditions and financial challenges. It is enforced by the government and serves as the basis for regulations, directives, and policies issued by the Bangladesh Bank to regulate the country's banking and financial system. As such, it holds substantial legal weight and plays a crucial role in shaping the financial landscape of Bangladesh.

**Q-35. What are the limitations of NBFIS for collecting deposits? What provisions are adopted in Finance Company Act, 2023 to attract the foreign investment in financial institutions operating in Bangladesh?**

Non-Banking Financial Institutions (NBFIs) face several limitations when it comes to collecting deposits:

1. **Restrictions on Deposit Collection:** NBFIs are not allowed to collect demand deposits like traditional banks. They are typically limited to collecting fixed deposits or other forms of term deposits.
2. **Lack of Deposit Insurance:** Unlike banks, deposits with NBFIs are not covered by deposit insurance schemes, which may deter depositors from placing funds with them due to concerns about safety and security.
3. **Regulatory Limits:** NBFIs are subject to regulatory limits on the amount and types of deposits they can collect, as well as stringent prudential regulations to safeguard depositors' interests.
4. **Trust and Credibility:** NBFIs may face challenges in building trust and credibility among depositors, especially compared to banks with established reputations and extensive branch networks.

The Finance Company Act, 2023, introduced provisions to attract foreign investment in financial institutions operating in Bangladesh:

1. **Liberalized Ownership Rules:** The Act may allow higher levels of foreign ownership in financial institutions, encouraging foreign investors to participate in the sector.
2. **Investment Incentives:** The Act may provide investment incentives such as tax breaks or exemptions to foreign investors in financial institutions to attract capital inflows.
3. **Streamlined Regulatory Processes:** The Act may streamline regulatory processes and reduce bureaucratic hurdles for foreign investors looking to establish or acquire financial institutions in Bangladesh.
4. **Enhanced Governance Standards:** The Act may introduce governance standards and transparency requirements to enhance investor confidence and attract foreign investment in financial institutions.

**Q-36. Mr. 'X' owes Tk. 4.00 crore to ABC Bank PLC, which has been marked as defaulted loan. The collateral security amounting to Tk. 3.50 crore had been mortgaged with the said loan. What will be the procedure the bank will adopt to recover the loan according to Artha Rin Adalat Ain, 2003? BPE-98<sup>th</sup>.** According to the Artha Rin Adalat Ain, 2003, the bank will follow the following procedure to recover the defaulted loan:

1. **Legal Notice:** The bank will issue a legal notice to Mr. 'X' demanding repayment of the outstanding loan amount within a specified period, typically 30 days.
2. **Filing a Suit:** If Mr. 'X' fails to repay the loan after receiving the legal notice, the bank will file a case against him in the Artha Rin Adalat (Money Loan Court).
3. **Court Proceedings:** The court will conduct hearings where both parties will present their arguments and evidence.

4. **Judgment:** After considering the evidence presented, the court will pass a judgment directing Mr. 'X' to repay the outstanding loan amount.
5. **Execution of Judgment:** If Mr. 'X' still fails to repay the loan as per the court's judgment, the bank can proceed with the execution of the judgment to recover the outstanding amount.
6. **Sale of Collateral:** As collateral security amounting to Tk. 3.50 crore had been mortgaged, the bank can proceed with the sale of the collateral to recover the outstanding loan amount.

Overall, the Artha Rin Adalat Ain, 2003, provides a legal framework for banks to recover defaulted loans through the money loan court, ensuring swift and efficient resolution of loan recovery cases.

**Q-37. Structure of the Coordination Council as per Bangladesh Bank Order,1972?**

The members of the Coordination Council are:

- Minister for Finance (Chairman)
- Minister for Commerce (Member)
- Governor, Bangladesh Bank (Member)
- Secretary, Finance Division (Member)
- Secretary, Internal Resources Division (Member)
- Member (Programming), Planning Commission (Member)

**Q-38. Main Functions of the Coordination Council as per Bangladesh Bank Order,1972?**

The primary responsibilities of the Coordination Council include:

- Coordinating the macroeconomic framework, including fiscal, monetary, and exchange rate strategies and policies.
- Ensuring consistency among macroeconomic targets of growth, inflation, and fiscal, monetary, and external accounts.
- Meeting before finalizing the budget to determine public sector borrowing, considering private sector credit requirements, monetary expansion, price inflation, and net foreign assets of the banking system.
- Meeting at least quarterly to review and revise macroeconomic policies and targets.
- Considering limits of Government borrowing before and after the annual budget.

**Q-39. Discuss about the provisions made for Appeal and Revision (Sec. 40-44) under the Artha Rin Adalat Ain, 2003.**

**Or, What are the requirements and time frames for filing an appeal and a revision case based on the decretal amount in Chapter VII, Sections 40-44?**

To file an appeal, the appellant must pay 50 percent of the decretal amount. If the decretal amount is less than Tk 50 lacs, the appeal should be filed before the district judge; if it is more than Tk 50 lacs, it should be filed before the high court. The appeal must be settled within 90 days, extendable by another 30 days (Sec. 41).

For a revision case, the judgment debtor must pay 75 percent of the decretal amount. The case must be settled within 60 days, extendable by another 30 days (Sec. 42).

**Chapter End**

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